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Report to the Legislature

THE JUDICIAL BRANCH

Financial and Compliance Audit for the
Two Fiscal Years Ended June 30, 1984

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THE JUDICIAL BRANCH

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Two Fiscal Years Ended June 30, 1984

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ELECTIVE AND ADMINISTRATIVE OFFICIALS

JUDICIAL BRANCH

STATE OF MONTANA

Supreme Court

Frank I. Haswell	Chief Justice Through January 6, 1985
Jean A. Turnage	Chief Justice Effective January 7, 1985
L.C. Gulbrandson	Associate Justice
John C. Harrison	Associate Justice
Frank B. Morrison	Associate Justice
Daniel J. Shea	Associate Justice Through January 6, 1985
William E. Hunt, Sr.	Associated Justice, Effective January 7, 1985
John C. Sheehy	Associate Justice
Fred J. Weber	Associate Justice
Michael Abley	Court Administrator
Ethel Harrison	Clerk of the Supreme Court
Judith Meadows	State Law Librarian

SUMMARY OF RECOMMENDATIONS

This listing serves as a means of summarizing the recommendations contained in the report and the audited agency's response.

Page

Recommendation #1

The Judicial Branch:

- A. Charge expenditures to the programs which benefit from the services. 3

Agency Response: Concur. See page 26.

- B. Limit expenditures to the amounts authorized by the Legislature. 3

Agency Response: Concur. See page 26.

Recommendation #2

The Judicial Branch revise its contracts and leave policy with law clerks to be in compliance with state law. 5

Agency Response: Do not concur. See page 26.

Recommendation #3

The Judicial Branch establish adequate supervisory review of accounting transactions. 7

Agency Response: Concur. See page 26.

Recommendation #4

The Judicial Branch implement procedures to reconcile document logs with a listing of processed transactions. 8

Agency Response: Concur. See page 26.

Recommendation #5

The Judicial Branch work with PERD to develop a funding formula which will maintain the Judges' Retirement System on a sound financial basis. 9

Agency Response: Concur. See page 26.

SUMMARY OF RECOMMENDATIONS (Continued)

	<u>Page</u>
<u>Recommendation #6</u>	
The state properly record revenue and the costs associated with the Judges' Retirement System in its accounting records.	10
Agency Response: Concur. See page 27.	
<u>Recommendation #7</u>	
The Judicial Branch comply with state law and collect appellant fees in advance until legislation is enacted that would change the requirement	10
Agency Response: Concur. See page 27.	
<u>Recommendation #8</u>	
The Judicial Branch notify the Surplus Property Bureau of the potential disposal of items.	11
Agency Response: Concur. See page 27.	
<u>Recommendation #9</u>	
The Judicial Branch adopt a termination checklist to ensure the return of all state travel advances.	11
Agency Response: Concur. See page 27.	

INTRODUCTION

We performed a financial-compliance audit of the Judicial Branch for fiscal years 1982-83 and 1983-84. The objectives of the audit were to: 1) determine if the financial schedules present fairly the results of operations for the two fiscal years ending June 30, 1984; 2) determine compliance with applicable laws and regulations which could have a significant effect on the financial schedules; and 3) make recommendations for improvements in the management and internal controls of the Judicial Branch.

This report contains 9 recommendations to the Judicial Branch. These recommendations address areas where management, internal control, and compliance with laws and regulations can be improved. Other areas of concern deemed not to have a significant effect on the successful operations of the branch programs are not specifically included in the report, but have been discussed with management.

In accordance with section 5-13-307, MCA, we analyzed the costs of implementing the recommendations made in this report. Each report section discloses the cost, if significant, of implementing the recommendation.

We thank the Judicial Branch staff for their cooperation and assistance during the audit.

BACKGROUND

The Constitution of the State of Montana, as adopted by the Constitutional Convention, March 22, 1972, and ratified by the people June 6, 1972, vests the judicial power of the state in one Supreme Court, district courts, justice courts, and such other courts as may be provided by law. The Supreme Court consists of one chief justice and six associate justices; has appellate jurisdiction, and may issue, hear, and determine appropriate writs. The Supreme Court also has general supervisory control over all other courts and may make rules governing appellate practice and procedure for all other courts, admission to the bar, and conduct of its members. The rules of procedure are subject to approval

by the Legislature in either of the two sessions following promulgation.

Supreme Court justices and district court judges are elected to office on a non-partisan ballot. Their terms of office and the procedure for filling vacancies on the court are established in the Constitution and by statute. Salaries for the justices and district court judges are determined by the Legislature.

The Judicial Branch consists of the Supreme Court, the Court Administrator, the Clerk of Court, the State Law Library, and the Water Courts.

The chief justice is the head of the Judicial Branch. The Court Administrator is appointed by the Supreme Court as the administrative officer. The court has authority to determine its own internal procedures and policies.

The Judicial Branch is divided into five programs for fiscal management.

1. The Supreme Court program consists of costs of operation of the Supreme Court.
2. The boards and commissions program accounts for expenditures for the boards and commissions established either by statute or the Supreme Court to perform various services required to support the judiciary within the state of Montana.
3. The Law Library program accounts for the operation of the State Law Library of Montana. The library is maintained for use by members of the Supreme Court, Legislature, state officials, and state employees. The library is also available to members of the bar and the general public.
4. The district court program accounts for the payment of salaries and travel expenses for district court judges.
5. The water courts supervision program accounts for the expenditures of the water courts.

OVERSPENDING APPROPRIATIONS

Section 17-8-103, MCA, states that expenditures may not be in excess of the program appropriations approved by the

Legislature. During our audit we noted two instances which resulted in the branch overspending its appropriation authority.

During fiscal year 1982-83, the branch received a telephone bill for \$928 related to the Board of Bar Examiners. The bill related to services provided during the previous fiscal year. Since the boards and commissions reverted appropriation had insufficient appropriation authority remaining, the branch improperly charged the expenditure to the law library program. According to state law, the branch should charge expenditures to the program benefiting from the services. If the branch had charged the expenditure to the proper program, it would have overspent its reverted appropriation authority by \$503.

During fiscal year 1983-84 the branch processed telephone, travel, and registration fee claims relating to the Supreme Court program which resulted in \$1,715 negative appropriation authority for the Supreme Court. In order to reverse the negative appropriation, the branch improperly abated \$1,800 of Supreme Court program expenditures and charged them to the law library program. In order to properly reflect program activity the branch should charge expenditures to the program which received the services. If the branch had charged the expenditure to the proper program, it would have overspent its Supreme Court appropriation authority by \$1,715. The Judicial Branch should implement periodic reviews of its appropriation balances to prevent overspending.

RECOMMENDATION #1

WE RECOMMEND THE JUDICIAL BRANCH:

- A. CHARGE EXPENDITURES TO THE PROGRAMS WHICH BENEFIT FROM THE SERVICES.
- B. LIMIT EXPENDITURES TO THE AMOUNTS AUTHORIZED BY THE LEGISLATURE.

LAW CLERKS CONTRACTS AND LEAVE

The Judicial Branch is authorized full-time equivalents for and employs 14 law clerks. The law clerks are state employees and the contracts written for their employment should comply with state law. We noted instances where the contracts did not comply with state law.

The branch allows each law clerk the option of becoming a member of the Public Employees' Retirement System. The clerk's choice is then incorporated into the contract between the branch and the clerk. Section 19-3-401, MCA, states all employees of the State of Montana not required to be a member of another retirement system shall become members of the Public Employees' Retirement System on the first day of their employment. Since these individuals are state employees, the branch should require law clerks to become members of the Public Employees' Retirement System.

The law clerks contract states ". . . 30-days severance pay may be paid in lieu of 30-days (termination) notice." Volume 34, Opinions of the Attorney General, No. 29, held that public employees are not entitled to severance pay except for accrued leave benefits as provided by law. The Judicial Branch should delete the severance pay clause from the contracts.

We also noted that the Judicial Branch allows the law clerks to take sick leave and annual leave prior to being employed by the state three months and six months respectively. Section 2-18-611(1), MCA, states employees are not entitled to any vacation leave with pay until they have been continuously employed for a period of six calendar months. Section 2-18-618(1), MCA, states employees are not entitled to be paid sick leave until they have been continuously employed ninety days. Since these individuals are state employees, the branch should grant leave in accordance with state law.

A court order issued February 2, 1984 stated, "In all cases law clerks will be contracted as independent contractors and not as employees. The Supreme Court is limited by the legislature as to

additional FTEs". Because these law clerks are under the direction and control of the Justice's, the law clerks are state employees based upon section 39-71-120, MCA. This MCA states "an independent contractor is one who has been and will continue to be free from control or direction over the performance of the services, both under his contract and in fact; . . .".

RECOMMENDATION #2

WE RECOMMEND THE JUDICIAL BRANCH REVISE ITS CONTRACTS AND LEAVE POLICY WITH LAW CLERKS TO BE IN COMPLIANCE WITH STATE LAW.

INTERNAL CONTROL

We have examined the financial schedules of the Judicial Branch for the two fiscal years ended June 30, 1984. We issued our opinion dated December 12, 1984 on these schedules. As part of our examination, we made a study and evaluation of the system of control of the Judicial Branch. Our study evaluated the system as required by generally accepted governmental auditing standards for financial and compliance audits. We classified the controls in the following categories:

1. revenue;
2. payroll;
3. expenditures; and
4. plant, property, and equipment.

We evaluated controls over revenue; payroll; expenditures; and plant, property, and equipment. Through our study, we determined the nature, timing, and extent of our auditing procedures. We did not evaluate the control system to the extent necessary to give an opinion on either individual segments or the system as a whole.

The management of the Judicial Branch is responsible for establishing and maintaining a system of accounting control. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related

costs of control procedures. The objectives of a system are to provide management with reasonable assurance that: 1) assets are safeguarded against loss from unauthorized use or disposition; 2) transactions are executed in accordance with management's authorization; and 3) transactions are recorded properly to permit the preparation of financial schedules in accordance with state accounting policies. Inherent limitations in any system of controls may cause errors or irregularities to remain undetected. The current system evaluation should not be used to project to future periods since the procedures may become inadequate or compliance with them may deteriorate.

The limited purpose of our study described in the first paragraph would not necessarily disclose all material weaknesses in the system. Accordingly, we do not express an opinion on the system of controls used by the Judicial Branch. However, our study disclosed conditions that indicate internal control weaknesses. These weaknesses are discussed in the next section.

The internal control weaknesses were considered in determining the nature, timing, and extent of the audit tests of the financial schedules. This report on internal control does not affect our opinion on the financial schedules dated December 12, 1984.

The preceding five paragraphs are intended solely for the use of management and the Legislature and should not be used for any other purpose. This restriction as to use is not intended to limit the distribution of this document which, upon presentation to the Legislative Audit Committee, is a matter of public record.

Supervisory Reviews

During the course of our audit we noted several conditions which, when considered together, reflect a lack of supervisory review over financial transactions. Such a review is necessary to detect and correct errors made when a document is originally prepared and to ensure only authorized transactions are processed.

The Clerk of Court's Office receives four types of revenue: 1) Supreme Court fees; 2) royalties; 3) bar examination application fees; and 4) attorney license fees. According to section 3-2-404, MCA, the branch shall record Supreme Court fees and royalties, 75 percent in the General Fund and 25 percent shall be paid to the Public Employees' Retirement Division (PERD) to be credited to Montana Judges' Retirement System account. According to sections 37-61-205 and 37-61-213, MCA, the branch shall record 100 percent of bar examination application and attorney license fees in the General Fund. During our audit, we noted the following instances where the branch improperly recorded revenues and costs of the Judges' Retirement System:

1. The branch deposited some attorney license fees 75 percent in the General Fund and 25 percent in the retirement account. As stated above, the branch should deposit 100 percent of these fees in the General Fund.
2. The branch deposited some multi-state bar exam and attorney license fees as court fees. Court fees are recorded 75 percent in the General Fund and 25 percent should be paid to the retirement account. The branch should record attorney license and examination fees 100 percent in the General Fund.

In addition, state policy requires appropriate supervisory personnel to approve all time summaries submitted by employees. Four time sheets out of eleven tested were not approved by the appropriate supervisory personnel. This policy was established to ensure state employees are paid for actual hours worked.

RECOMMENDATION #3

WE RECOMMEND THE JUDICIAL BRANCH ESTABLISH ADEQUATE SUPERVISORY REVIEW OF ACCOUNTING TRANSACTIONS.

Lack of Reconciliation

Currently the Judicial Branch does not reconcile document logs to either the daily transaction listing or the monthly accounting system document log. Without this reconciliation, the branch cannot be assured that all transactions were processed or that processed transactions were authorized. The branch should reconcile document logs to the daily transaction listing or the monthly accounting system document log.

RECOMMENDATION #4

WE RECOMMEND THE JUDICIAL BRANCH IMPLEMENT PROCEDURES TO RECONCILE DOCUMENT LOGS WITH A LISTING OF PROCESSED TRANSACTIONS.

MONTANA JUDGES' RETIREMENT SYSTEM

Funding Level

Supreme Court justices and district court judges are members of the Montana Judges' Retirement System (MJRS). This retirement system, which was established in 1967, currently has 41 contributing members.

The MJRS is funded by: 1) employees contributing 6 percent of the salary in fiscal year 1982-83 and 7 percent in fiscal year 1983-84; 2) employers contributing an amount equal to 6 percent of the employees salary; 3) district court fees in an amount equal to 31 percent of the salaries paid district court judges and Supreme Court justices; and 4) 25 percent of selected Supreme Court fees.

Inadequate funding in fiscal year 1983-84 occurred when the states share of district court fees collected was insufficient to meet the 31 percent funding requirements by \$3,551. Agency personnel indicated this occurred because district court judges' and Supreme Court justices' salaries increased but district court fees remained unchanged. Agency personnel projected a shortfall in fiscal year 1984-85 of approximately \$49,000.

The actuarial report for the Montana Judges' Retirement System projected the unfunded liability will be fully amortized in 150 years under their present funding plan. The Public Employees' Retirement Division (PERD) audit report issued by our office stated we are not certain that the system can continue to pay projected future benefits given its current level of funding. Based upon the insufficient funding that occurred in fiscal year 1983-84, we recommend the agency work with PERD of the Department of Administration to develop a funding formula which will maintain the system on an actuarially sound basis. This was also noted in our prior audit.

RECOMMENDATION #5

WE RECOMMEND THE JUDICIAL BRANCH WORK WITH PERD TO DEVELOP A FUNDING FORMULA WHICH WILL MAINTAIN THE JUDGES' RETIREMENT SYSTEM ON A SOUND FINANCIAL BASIS.

Recording Revenues and Expenditures

The Judicial Branch receives money from district court fees and Supreme Court fees. By statute, part of these moneys are used to fund the Montana Judges' Retirement System (MJRS). The Judicial Branch transfers these funds directly to the Public Employees' Retirement Division (PERD) of the Department of Administration for the MJRS. The accounting procedure used by the branch is in accordance with section 19-5-404, MCA. Under the current procedure adopted by the Judicial Branch, the fee revenue is not being recorded by the state. Also, the cost of funding the retirement system is not being fully disclosed in the state accounting records.

The Montana Judges' Retirement System was established for district court judges and Supreme Court justices. Because both judges and justices are employees of the Judicial Branch, the Judicial Branch would be the logical agency to account for the fee revenue and costs of this retirement system. The Judicial Branch could properly account for these costs within the statute.

As a result of the direct transfer, revenue of approximately \$355,000 in fiscal year 1982-83 and \$564,000 in 1983-84 is not recorded by the state. Also, the corresponding cost of the retirement system is not recorded. This results in pension costs being understated in fiscal years 1982-83 and 1983-84 by approximately \$355,000 and \$564,000, respectively.

This was also a prior audit recommendation.

RECOMMENDATION #6

WE RECOMMEND THE STATE PROPERLY RECORD REVENUE AND THE COSTS ASSOCIATED WITH THE JUDGES' RETIREMENT SYSTEM IN ITS ACCOUNTING RECORDS.

STATE COMPLIANCE

We reviewed compliance with state laws and regulations that could have a material impact on the financial schedules of the branch. In our opinion, except for the instances of noncompliance on pages 2 and 4 and in the following sections, the branch complied with state laws and regulations tested. Nothing came to our attention that caused us to believe untested items are not in accordance with applicable laws and regulations.

Collection of Appellant Fees

Section 3-2-403, MCA, states the Clerk of Court must collect in advance appellant fees for filing the transcript on appeal in any civil case appealed to the Supreme Court. The policy of the clerk of the Supreme Court is to accept these transcripts and bill for the fees. The previous two audits recommended the branch comply with this state law. Senate Bill 144 has been introduced to eliminate the requirement for advanced payment.

RECOMMENDATION #7

WE RECOMMEND THE JUDICIAL BRANCH COMPLY WITH STATE LAW AND COLLECT APPELLANT FEES IN ADVANCE UNTIL LEGISLATION IS ENACTED THAT WOULD CHANGE THE REQUIREMENT.

Surplus Property

Section 18-6-101, MCA, states the Department of Administration, has the exclusive power to sell or otherwise dispose of equipment no longer needed by a state agency. State policy requires agencies possessing materials, supplies, or equipment no longer needed to contact the Department of Administration, Surplus Property Bureau, for disposition instructions. During our testing of equipment deletions, we found one instance where Surplus Property was not notified prior to the item being deleted from the records. The branch traded the item for new property without Surplus Property's approval. The branch should comply with state policy and notify the Surplus Property Bureau of the potential disposal of items.

RECOMMENDATION #8

WE RECOMMEND THE JUDICIAL BRANCH NOTIFY THE SURPLUS PROPERTY BUREAU OF THE POTENTIAL DISPOSAL OF ITEMS.

Outstanding Travel Advances

Outstanding travel advances of \$376 remained on the accounting records for two employees after they had terminated. State policy requires the branch to ensure the return of all state property when an employee terminates. This policy was established because the chances of recovering funds due the state are weakened after the employee leaves his job. Even though these advances were eventually repaid, the branch should establish a termination checklist to be used during the termination process to ensure the return of all state travel advances.

RECOMMENDATION #9

WE RECOMMEND THE JUDICIAL BRANCH ADOPT A TERMINATION CHECKLIST TO ENSURE THE RETURN OF ALL STATE TRAVEL ADVANCES.

FEDERAL COMPLIANCE

Our audit of federal moneys was performed in accordance with the requirements in the U.S. Office of the Management and Budget "Circular A-102, Attachment P." This circular provides for audits of financial operations, including compliance with certain provisions of federal laws and regulations.

The Judicial Branch was a subgrantee receiving federal funds from the Highway Traffic Safety Division at the Department of Justice. We reviewed specific grant provisions, cost allowability, and grantor reporting.

Based on our examination, we found that, for the items tested, the branch complied with the material terms and conditions of the federal grant regulations. Nothing came to our attention that causes us to believe untested compliance issues are not in accordance with applicable laws and regulations.

PRIOR AUDIT RECOMMENDATIONS

The previous audit report contained nineteen recommendations still applicable to the Judicial Branch. The branch has implemented twelve of these recommendations, partially implemented three, and has not implemented four.

The recommendations that the branch has not taken adequate corrective action for concern the Judges' Retirement System funding and recording of revenue and expenditures (pages 9 and 10), establishing procedures for independent review of accounting transactions (page 8), and collecting appellant fees in advance in accordance with state law (page 11).

AUDITOR'S REPORT
AND SCHEDULES OF AGENCY FINANCIAL ACTIVITY

Office of the Legislative Auditor

STATE CAPITOL
HELENA, MONTANA 59620
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ROBERT R. RINGWOOD
LEGISLATIVE AUDITOR

DEPUTY LEGISLATIVE AUDITORS:

JAMES H. GILLET
FINANCIAL/COMPLIANCE AUDITS

SCOTT A. SEACAT
PERFORMANCE AUDITS

STAFF LEGAL COUNSEL

JOHN W. NORTHEY

The Legislative Audit Committee
of the Montana State Legislature:

We have examined the Schedule of Changes in Fund Balance; the Schedule of Revenue - Estimate and Actual; the Schedule of Expenditures by Fund - Budget and Actual; and the Schedule of Program Expenditures by Object of the various funds of the Judicial Branch for the two fiscal years ending June 30, 1983 and 1984. Our examination was made in accordance with generally accepted auditing standards and Standards for Audits of Governmental Organizations, Programs, Activities, and Functions and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

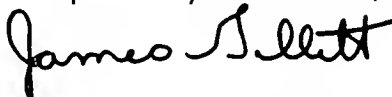
As described in Note 1 to the financial schedules, the Judicial Branch's financial schedules are prepared in accordance with state accounting policy. Accordingly, the accompanying financial schedules are not intended to present financial position and results of operations in conformity with generally accepted accounting principles.

The branch improperly recorded operating expenditures in the Law Library program rather than the Supreme Court and boards and commissions programs. If the branch had properly recorded the expenditures it would have overspent its fiscal year 1983-84 Supreme Court General Fund authority by \$1,715. It would have also overspent its fiscal year 1981-82 boards and commissions General Fund reverted appropriation authority by \$503.

In our opinion, the schedules referred to in the first paragraph present fairly the results of operations and changes in fund balances of such funds of the Judicial Branch for the two fiscal years ending June 30, 1984 in conformity with the basis of accounting described in Note 1, which except for the change, with which we concur, in the reporting of Westlaw activities in fiscal year 1983-84, as discussed in Note 7, have been applied on a consistent basis.

Our examination was made for the purpose of forming an opinion on the basic financial schedules taken as a whole. The Schedule of Federal Grant Receipts and Disbursements is presented for purposes of additional analysis and is not a required part of the basic financial schedules. Such information has been subjected to the auditing procedures applied in the examination of the basic financial schedule and, in our opinion, is fairly stated in all material respects in relation to the financial schedule taken as a whole.

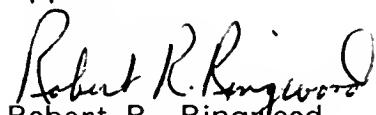
Respectfully submitted,



James H. Gillett, CPA
Deputy Legislative Auditor

December 12, 1984

Approved:



Robert R. Ringwood
Legislative Auditor

JUDICIAL BRANCH
SCHEDULE OF CHANGES IN FUND BALANCE
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1984

	<u>General Fund</u>	<u>Special Revenue Fund</u>
FUND BALANCE, July 1, 1982	\$ -0- *	\$ (8,490)
ADDITIONS:		
Fiscal Year 1982-83		
Revenue	\$ 153,518	18,600
Prior Year Revenue Adjustments	(42,613)	250
Support From State of Montana	3,533,532	-0-
Support From Department of Natural Resources	-0-	167,493
Fiscal Year 1983-84		
Revenue	111,715	10,019
Prior Year Revenue Adjustments	130	-0-
Support From State of Montana	3,727,819	-0-
Support From Department of Natural Resources	-0-	251,964
Total Additions	<u>7,484,101</u>	<u>448,326</u>
REDUCTIONS:		
Fiscal Year 1982-83		
Expenditures	3,644,972	210,998
Prior Year Expenditure Adjustments	(535)	(45)
Fiscal Year 1983-84		
Expenditures	3,833,788	247,415
Prior Year Expenditure Adjustments	5,876	1,051
Total Reductions	<u>7,484,101</u>	<u>459,419</u>
FUND BALANCE - June 30, 1984	<u>\$ -0- *</u>	<u>\$ (19,583)</u>

*See footnote 5.

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 21 through 23.

JUDICIAL BRANCH
SCHEDULE OF REVENUE - ESTIMATE AND ACTUAL
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1984

	<u>Licenses and Permits</u>	<u>Service Fees</u>	<u>Rentals, Leases and Royalties</u>	<u>Federal Assistance</u>	<u>Miscellaneous</u>	<u>Total Revenue</u>
FISCAL YEAR 1982-83						
General Fund						
Estimated Revenue	\$22,000	\$ 196,000	\$800			\$218,800
Actual Revenue	<u>27,525</u>	<u>125,166</u>	<u>827</u>			<u>153,518</u>
Collections						
Over (Under) Estimates	<u>\$ 5,525</u>	<u>\$ (70,834)</u>	<u>\$ 27</u>			<u>\$(65,282)</u>
Special Revenue Fund						
Estimated Revenue				\$18,600		\$ 18,600
Actual Revenue				<u>18,600</u>		<u>18,600</u>
Collections						
Over (Under) Estimates				<u>\$ -0-</u>		<u>\$ -0-</u>
FISCAL YEAR 1983-84						
General Fund						
Estimated Revenue	\$24,000	\$ 119,000	\$800		\$ 8,900	\$152,700
Actual Revenue	<u>86,461</u>	<u>12,686</u>	<u>852</u>		<u>11,716</u>	<u>111,715</u>
Collections						
Over (Under) Estimates	<u>\$62,461</u>	<u>\$(106,314)</u>	<u>\$ 52</u>		<u>\$ 2,816</u>	<u>\$(40,985)</u>
Special Revenue Fund						
Estimated Revenue					\$29,158	\$ 29,158
Actual Revenue					<u>10,019</u>	<u>10,019</u>
Collections						
Over (Under) Estimates					<u>\$19,139</u>	<u>\$ 19,139</u>

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 21 through 23.

JUDICIAL BRANCH
SCHEDULE OF EXPENDITURES BY FUND - BUDGET AND ACTUAL
FOR FISCAL YEAR ENDED JUNE 30, 1984

	Supreme Court	Boards and Commissions	Law Library	District Court	Water Courts Supervision	Total
GENERAL FUND						
Budget	\$1,387,359	\$192,278	\$464,532	\$1,830,002	\$ -0-	\$3,874,171
Actual						
Personal Services	960,341 ¹	80,868	123,375	1,704,525 ¹	-0-	2,869,109
Operating Expenses	274,515	109,459	113,706	123,897 ¹	-0-	621,577
Equipment	44,563 ²	-0-	201,684	-0-	-0-	246,247
Grants	96,855 ²	-0-	-0-	-0-	-0-	96,855
Total Actual	1,376,274	190,327	438,765	1,828,422	-0-	3,833,788
Unspent Budget Authority	\$ 11,085	\$ 1,951	\$ 25,767	\$ 1,580	-0-	\$ 40,383
SPECIAL REVENUE FUND						
Budget	-0-	-0-	\$ 29,158	-0-	\$418,330	\$ 447,488
Actual						
Personal Services	-0-	-0-	-0-	-0-	166,598	166,598
Operating Expenses	-0-	-0-	8,376	-0-	55,874	64,250
Equipment	-0-	-0-	-0-	-0-	16,567	16,567
Total Actual	-0-	-0-	8,376	-0-	239,039	247,415
Unspent Budget Authority	-0-	-0-	\$ 20,782	-0-	\$179,291	\$ 200,073
PROGRAM TOTAL						
Budget	\$1,387,359	\$192,278	\$493,690	\$1,830,002	\$418,330	\$4,321,659
Actual						
Personal Services	960,341	80,868	123,375	1,704,525 ¹	166,598	3,035,707
Operating Expenses	274,515	109,459	122,082	123,897 ¹	55,874	685,827
Equipment	44,563 ²	-0-	201,684	-0-	16,567	262,814
Grants	96,855 ²	-0-	-0-	-0-	-0-	96,855
Total Actual	1,376,274	190,327	447,141	1,828,422	239,039	4,081,203
Unspent Budget Authority	\$ 11,085	\$ 1,951	\$ 46,549	\$ 1,580	\$179,291	\$ 240,456

¹See footnote 3.

²See footnote 7.

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 21 through 23.

JUDICIAL BRANCH
SCHEDULE OF EXPENDITURES BY FUND - BUDGET AND ACTUAL
FOR FISCAL YEAR ENDED JUNE 30, 1983

	<u>Supreme Court</u>	<u>Boards and Commissions</u>	<u>Law Library</u>	<u>District Court</u>	<u>Water Courts Supervision</u>	<u>Total</u>
GENERAL FUND						
Budget	<u>\$1,382,278</u>	<u>\$175,401</u>	<u>\$348,813</u>	<u>\$1,771,622</u>	<u>\$ -0-</u>	<u>\$3,678,114</u>
Actual						
Personal Services	965,616 ¹	65,805	117,603	1,672,273 ¹	-0-	2,821,297
Operating Expenses	283,027 ¹	94,860	35,311	98,409 ¹	-0-	511,607
Equipment	34,889 ²	3,361	188,872	-0-	-0-	227,122
Grants	84,946 ²	-0-	-0-	-0-	-0-	84,946
Total Actual	<u>1,368,478</u>	<u>164,026</u>	<u>341,786</u>	<u>1,770,682</u>	<u>-0-</u>	<u>3,644,972</u>
Unspent Budget Authority	<u>\$ 13,800</u>	<u>\$ 11,375</u>	<u>\$ 7,027</u>	<u>\$ 940</u>	<u>\$ -0-</u>	<u>\$ 33,142</u>
SPECIAL REVENUE FUND						
Budget	<u>\$ -0-</u>	<u>\$ 18,600</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$276,023</u>	<u>\$ 294,623</u>
Actual						
Personal Services	-0-	-0-	-0-	-0-	127,745	127,745
Operating Expenses	-0-	18,600	-0-	-0-	34,070	52,670
Equipment	-0-	-0-	-0-	-0-	30,583	30,583
Total Actual	<u>-0-</u>	<u>18,600</u>	<u>-0-</u>	<u>-0-</u>	<u>192,398</u>	<u>210,998</u>
Unspent Budget Authority	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ 83,625</u>	<u>\$ 83,625</u>
PROGRAM TOTAL						
Budget	<u>\$1,382,278</u>	<u>\$194,001</u>	<u>\$348,813</u>	<u>\$1,771,622</u>	<u>\$276,023</u>	<u>\$3,972,737</u>
Actual						
Personal Services	965,616	65,805	117,603	1,672,273	127,745	2,949,042
Operating Expenses	283,027	113,460	35,311	98,409	34,070	564,277
Equipment	34,889 ²	3,361	188,872	-0-	30,583	257,705
Grants	84,946 ²	-0-	-0-	-0-	-0-	84,946
Total Actual	<u>1,368,478</u>	<u>182,626</u>	<u>341,786</u>	<u>1,770,682</u>	<u>192,398</u>	<u>3,855,970</u>
Unspent Budget Authority	<u>\$ 13,800</u>	<u>\$ 11,375</u>	<u>\$ 7,027</u>	<u>\$ 940</u>	<u>\$ 83,625</u>	<u>\$ 116,767</u>

¹See footnote 3.

²See footnote 7.

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 21 through 23.

JUDICIAL BRANCH
SCHEDULE OF PROGRAM EXPENDITURES BY OBJECT
FOR FISCAL YEAR ENDED JUNE 30, 1984

	<u>Supreme Court</u>	<u>Boards and Commissions</u>	<u>Law Library</u>	<u>District Court</u>	<u>Water Courts Supervision</u>	<u>Total</u>
PERSONAL SERVICES						
Salaries	\$ 830,699	\$ 67,885	\$103,123	\$1,458,834	\$139,244	\$2,599,785
Other Compensation	-0-	-0-	-0-	38,527 ¹	313	38,840
Employee Benefits	129,642 ¹	12,983	20,252	207,164 ¹	27,041	397,082
Total Personal Services	<u>960,341</u>	<u>80,868</u>	<u>123,375</u>	<u>1,704,525</u>	<u>166,598</u>	<u>3,035,707</u>
OPERATING EXPENSES						
Contracted Services	41,445	66,195	16,239	3,647	5,579	133,105
Supplies & Materials	37,441	10,615	12,948	5,805	6,218	73,027
Communications	33,146	4,235	10,888	414	11,890	60,573
Travel	21,756	26,160	1,249	96,520	5,683	151,368
Rent	95,436	2,093	69,084	-0-	22,046	188,659
Repair and Maintenance	11,635	-0-	4,803	8,227	2,590	27,255
Other Expenses	33,656	161	6,871	9,284	1,868	51,840
Total Operating Expenses	<u>274,515</u>	<u>109,459</u>	<u>122,082</u>	<u>123,897</u>	<u>55,874</u>	<u>685,827</u>
EQUIPMENT						
Equipment	44,563	-0-	201,684	-0-	16,567	262,814
Total Equipment	<u>44,563</u>	<u>-0-</u>	<u>201,684</u>	<u>-0-</u>	<u>16,567</u>	<u>262,814</u>
GRANTS	96,855 ²	-0-	-0-	-0-	-0-	96,855
TOTAL PROGRAM EXPENDITURES	<u>\$1,376,274</u>	<u>\$190,327</u>	<u>\$447,141</u>	<u>\$1,828,422</u>	<u>\$239,039</u>	<u>\$4,081,203</u>

¹See footnote 3.

²See footnote 7.

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 21 through 23.

JUDICIAL BRANCH
SCHEDULE OF PROGRAM EXPENDITURES BY OBJECT
FOR FISCAL YEAR ENDED JUNE 30, 1983

	<u>Supreme Court</u>	<u>Boards and Commissions</u>	<u>Law Library</u>	<u>District Court</u>	<u>Water Courts Supervision</u>	<u>Total</u>
PERSONAL SERVICES						
Salaries	\$ 825,240	\$ 55,274	\$ 99,257	\$1,449,990	\$108,031	\$2,537,792
Hourly Wages	-0-	-0-	6	-0-	-0-	6
Other Compensation	4,528	-0-	-0-	22,341	-0-	26,869
Employee Benefits	135,848 ¹	10,531	18,340	199,942 ¹	19,714	384,375
Total Personal Services	<u>965,616</u>	<u>65,805</u>	<u>117,603</u>	<u>1,672,273</u>	<u>127,745</u>	<u>2,949,042</u>
OPERATING EXPENSES						
Contracted Services	66,192	61,524	13,871	2,241	1,838	145,666
Supplies & Materials	29,794	8,573	5,763	4,801	4,753	53,684
Communications	33,331	4,570	5,752	232	5,599	49,484
Travel	19,581	30,728	2,206	82,576	3,484	138,575
Rent	104,704	4,525	-0-	-0-	15,210	124,439
Repair and Maintenance	8,149	-0-	3,767	2,839	2,321	17,076
Other Expenses	21,276	3,540	3,952	5,720	865	35,353
Total Operating Expenses	<u>283,027</u>	<u>113,460</u>	<u>35,311</u>	<u>98,409</u>	<u>34,070</u>	<u>564,277</u>
EQUIPMENT						
Equipment	34,889	3,361	188,872	-0-	30,583	257,705
Total Equipment	<u>34,889</u>	<u>3,361</u>	<u>188,872</u>	<u>-0-</u>	<u>30,583</u>	<u>257,705</u>
GRANTS	84,946 ²	-0-	-0-	-0-	-0-	84,946
TOTAL PROGRAM EXPENDITURES	<u>\$1,368,478</u>	<u>\$182,626</u>	<u>\$341,786</u>	<u>\$1,770,682</u>	<u>\$192,398</u>	<u>\$3,855,970</u>

¹See footnote 3.

²See footnote 7.

These schedules are compiled from the Statewide Budgeting and Accounting System. Additional information is provided in the notes to the financial schedules on pages 21 through 23.

JUDICIAL BRANCH
NOTES TO THE FINANCIAL SCHEDULES
FOR THE TWO FISCAL YEARS ENDING JUNE 30, 1984

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial schedules are prepared from the Statewide Budgeting and Accounting System without adjustments. Accounts are organized on the basis of funds according to state law. The following fund types are used by the department.

General Fund - accounts for all financial resources except those required to be accounted for in other funds.

Special Revenue Fund - accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. Legislative appropriation is required to spend from this fund.

Basis of Accounting

The state of Montana utilizes the modified accrual basis of accounting which is described in the Montana Operations Manual. Under the modified accrual basis of accounting, a valid obligation exists when the associated liability is incurred except for the following items which are also considered valid obligations under state accounting policy.

- If the appropriation provided funds to complete a given project, the entire amount of a service contract may be accrued even though the services are rendered in fiscal years subsequent to the fiscal year in which the expenditure is accrued.
- The anticipated cost of equipment is expensed in the fiscal year in which budgeted.
- Goods ordered, but not received as of the fiscal year-end, may be accrued if the purchase order was issued in the fiscal year in which the anticipated expenditure is to be accrued.

2. FIXED ASSETS

The department records assets on the state's Property and Accountability Management System. The fixed asset balance as of June 30, 1984 is as follows:

<u>General Fixed Assets</u>	<u>June 30, 1984 Balance</u>
Equipment	\$515,671
Total	<u>\$515,671</u>

3. PENSION PLAN

Employees are covered by the Montana Public Employees' Retirement System (PERS) or the Montana Judge's Retirement System (MJRS). The branch's contributions to these plans are shown below:

	<u>Fiscal Year 1982-83</u>	<u>Fiscal Year 1983-84</u>
PERS	\$ 50,598	\$ 34,650
MJRS	102,935	109,118
Total	<u>\$153,533</u>	<u>\$143,768</u>

Costs of approximately \$355,000 for fiscal year 1983 and \$564,000 for fiscal year 1984 for providing the MJRS are not reflected in the amounts above as a result of current accounting procedures. These contribution sources are Supreme Court and district court fees.

4. VACATION AND SICK LEAVE

Employees of the department accumulate both vacation and sick leave. Employees are paid for 100 percent of unused vacation and 25 percent of unused sick leave credits upon termination. Accumulated unpaid liabilities for vacation and sick leave are not reflected in the financial schedules of the department. Expenditures for termination pay currently are absorbed in the annual

operational costs of the department. At June 30, 1984, the department has a predicted liability of \$35,838 for vacation leave and \$14,744 for sick leave.

5. GENERAL FUND BALANCE

The General Fund is a Statewide Fund. Agencies do not have a separate General Fund since its only authority is to pay obligations from the Statewide General Fund as long as it stays within its appropriation limits. Thus, on an agency schedule the beginning and ending fund balance will always be zero.

6. CHANGE IN CLASSIFICATION

During fiscal year 1983-84, the Westlaw operation was reported in the Special Revenue Fund. During fiscal year 1982-83, it was reported in the General Fund because it was not fully operational until fiscal year 1983-84.

7. LEGAL SERVICES

The Judicial Branch contracts with the Montana Criminal Law Information Research Center (MONTCLIRC) to provide services. The MONTCLIRC is staffed with selected law student research assistants who prepare legal memoranda and respond to questions as requested by judges, public prosecutors, public defenders, court-appointed counsel, and other publicly paid members of the criminal justice system in Montana.

JUDICIAL BRANCH
SCHEDULE OF FEDERAL RECEIPTS AND DISBURSEMENTS
FOR THE TWO FISCAL YEARS ENDED JUNE 30, 1984

Highway Traffic Safety Division, Dept. of Justice

	<u>Receipts</u>	<u>Disbursements</u>
DUI Enforcement and Adjudication Subgrant	\$18,600	\$18,600

AGENCY RESPONSE



MICHAEL ABLEY
COURT ADMINISTRATOR

The Supreme Court of Montana
ROOM 315 - JUSTICE BUILDING
HELENA, MONTANA 59620
TELEPHONE (406) 449-2621

February 26, 1985

RECEIVED

FEB 27 1985

MONTANA LEGISLATIVE AUDITOR

Mr. Robert R. Ringwood
Legislative Auditor
Room 135 State Capitol
Helena, MT 59620

Dear Mr. Ringwood:

As requested by your February 20, 1985, letter, attached is our response to the report on the audit of the Judicial Branch.

We are also ready to meet with the Audit Committee at their convenience in order to provide any other information that may be desired.

If anything further is needed, please feel free to contact me.

Sincerely,

Michael Abley
Court Administrator

MA/cr
Enc.

SUPREME COURT REPLY
TO AUDIT REPORT OF JUNE 30, 1984

- #1. We agree that funds allocated to the Library were expended on matters originating from the "Boards and Commissions" and the "Supreme Court Operations" programs. These claims were unanticipated prior year expenses and the Court decided it was proper to pay these claims only from a prior year reverted appropriation balance. The only such balance available was that of the Law Library.
- #2. The law clerks are unique among those who provide services to the state in that they do so only for one year and rarely continue to work for the state thereafter. Because of this situation, it is pointless for them to participate in the Public Employees Retirement System. If they were to do so, this agency would have to pay an additional \$14,000 per year into the system, and every year the law clerk and the Retirement System would have to go through the unnecessary paperwork of withdrawing their contributions. Again, because the law clerks remain for only one year, limitations as to when they can utilize accumulated leave would result in an increased liability for the State when they depart. That increased liability adversely affects the personnel services budget of the Judicial Branch.

The Supreme Court has made the decision that the law clerks are a unique classification and should, therefore, be treated as such. It is the intention of the Court to continue according to the cited order.

- #3. The Clerk of the Supreme Court does not dispute the audit report in that some attorney license fees were deposited 75 percent General Fund, 25 percent retirement account. The Clerk of the Supreme Court does not dispute the audit report in that some multi-state bar exam and attorney license fees were deposited as court fees.

The Clerk believes that the situation has been clarified with existing personnel.

- #4. We concur and will begin doing so.
- #5. The Montana Judges Association made some effort to provide a means whereby the Judicial Retirement System would be adequately funded during the 1983 Legislature Session. At the next session, further attempts will be made.

- #6. The prior audit recommendation included the stipulation that legislative action on Section 19-5-404, MCA, was necessary to implement the recommendation. That action has not been taken. In addition, legislative action would also have to be taken on the Court's expenditure and revenue budget levels.
- #7. In most cases, the filing fee for appellant is received with the Record on Appeal.

The Clerk's office has been directed to not delay the filing of an appeal if fees are not paid in advance. Therefore, a Record on Appeal is filed when received, and the appellant is billed. The amount due is recorded on the face of the Notice of Filing form issued the day the Record on Appeal is received.

Senate Bill 144, before the 1985 Legislature, strikes the words IN ADVANCE. The bill has passed the Senate and is presently in transmittal.

- #8. We concur and will do so.
- #9. We concur and will do so.

